

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SSO-00 INRE-00 NSCE-00 USIE-00  
CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00  
NSC-05 PA-01 PRS-01 SP-02 SS-15 AID-05 COME-00  
EB-07 FRB-03 TRSE-00 XMB-02 OPIC-03 LAB-04 EPG-02  
SIL-01 OMB-01 /093 W  
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O R 071719Z JUL 77  
FM AMEMBASSY LONDON  
TO SECSTATE WASHDC IMMEDIATE 5905  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY THE HAGUE  
AMEMBASSY LUXEMBOURG  
AMEMBASSY ROME  
USMISSION NATO  
AMEMBASSY PARIS  
USMISSION GENEVA  
USNMR SHAPE  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH

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USEEC ALSO FOR EMBASSY  
USOECN ALSO FOR EMBASSY

PASS LABOR, TREASURY, FRB

E.O. 11652: N/A  
TAGS: ELAB, UK, PINT  
SUBJECT: THE PAY CRISIS: CAN THE GOVERNMENT REPAIR  
THE DAMAGE?  
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REF: LONDON 11129

BEGIN SUMMARY - THE CABINET MET TODAY TO TRY AND RE-  
TRIEVE WHATEVER SHREDS OF A PAY POLICY ARE LEFT AFTER  
THE DEVASTATING SETBACK YESTERDAY (JULY 6 -- SEE REFTTEL)  
WHEN JACK JONES FAILED TO CARRY HIS UNION, THE TRANSPORT

AND GENERAL WORKERS (TGWU) IN SUPPORT OF AN "ORDERLY RETURN" TO FREE COLLECTIVE BARGAINING. EDMUND DELL, SECRETARY OF STATE, TOLD US THAT THE GOVERNMENT IS DETERMINED TO USE ITS POWERS TO CONTROL PUBLIC SECTOR WAGES AND TO LIMIT THE MONEY SUPPLY IF, AFTER FURTHER EFFORTS, THERE IS NO AGREEMENT WITH THE UNIONS ON PAY. NORMAN WILLIS, ACTING TUC GENERAL SECRETARY, STILL HOPES THAT A WAGES EXPLOSION CAN BE PREVENTED AFTER JULY 31ST BUT HE ACKNOWLEDGES THAT THE PROBLEM IS NOW, INDEED, "VERY, VERY DIFFICULT." THE TGWU DEFEAT MAY PLACE IN JEOPARDY THE LABOR-LIBERAL COMPACT UNLESS THE GOVERNMENT FINDS A POLITICALLY ACCEPTABLE WAY TO PREVENT A WAGES EXPLOSION. MANY OBSERVERS CONSIDER THE GOVERNMENT'S PAY POLICY, A PILLAR OF ITS ECONOMIC STRATEGY AND OF ITS SOCIAL CONTRACT WITH THE UNIONS, AS NOW A DEAD INSTRUMENT AND ARE SPECULATING ABOUT THE LIKELIHOOD OF AN EARLY ELECTION. END SUMMARY.

1. IT WILL BE EXTREMELY DIFFICULT, IF NOT IMPOSSIBLE NOW, FOR THE GOVERNMENT TO UNDO THE DAMAGE TO ITS ECONOMIC STRATEGY WHICH FLOWS FROM THE DEFEAT YESTERDAY OF JACK JONES IN HIS ATTEMPT TO SECURE SUPPORT FOR AN "ORDERLY RETURN" TO FREE COLLECTIVE BARGAINING. THE TGWU DECISION, FOLLOWING ON THE HEELS OF THE MINERS' NEGATIVE ACTION YESTERDAY (REFTEL) VERY LIKELY MEANS THAT THERE WILL BE A MAJORITY AT THE TUC CONGRESS IN LIMITED OFFICIAL USE

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SEPTEMBER CALLING FOR AN END TO ALL RESTRAINTS WHEN THE PRESENT PAY POLICY EXPIRES JULY 31ST. MOST CERTAINLY, PRIME MINISTER JAMES CALLAGHAN WILL USE ALL OF HIS INFLUENCE AND POWER TO PERSUADE THE UNIONS TO KEEP PHASE II AGREEMENTS INTACT AND HE WILL OF COURSE ARGUE, AS JONES DID (ALTHOUGH UNSUCCESSFULLY) THAT A BREAKDOWN NOW OF THE PAY POLICY WOULD ACCELERATE THE RETURN OF A CONSERVATIVE GOVERNMENT.

2. THERE ARE ROUGHLY THREE OPTIONS AVAILABLE TO THE GOVERNMENT IN THE LIGHT OF THIS CRISIS, ALL OF WHICH PRESUPPOSE IT MAINTAINS ITS FINANCIAL COMMITMENTS TO THE IMF. OPTION 1: IT CAN PRESS THE UNIONS TO KEEP THE "TWELVE MONTHS" RULE IN PHASE II WHICH, IF ADHERED TO, WOULD MEAN THAT UNIONS WOULD NOT DEMAND MORE MONEY BEFORE THE TWELVE-MONTH PERIOD HAD PASSED, AND THAT UNIONS WHICH HAVE NOT YET CONCLUDED A PHASE II AGREEMENT WILL PROCEED TO DO SO. AT THE SAME TIME, IT MAY TRY TO SECURE A BROADLY-AGREED STATEMENT WITH THE TUC WHICH EMPHASIZED THE NEED FOR RESTRAINT IN POST-PHASE II WAGE DEMANDS. (EVEN AFTER HIS UNION'S ACTION, JONES SAID THAT THE GOVERNMENT MUST NOW TAKE APPROPRIATE AC-

TION ON PRICES, INVESTMENT AND EMPLOYMENT IN ORDER TO  
CREATE A CLIMATE FOR SUCH RESTRAINT, I.E., ENCOURAGE  
"REASONABLE WAGE SETTLEMENTS.") OPTION 2: IT CAN USE  
THE POWER IT HAS OVER PUBLIC SECTOR WAGES TO HOLD THEM  
DOWN, THEREBY SETTING AN EXAMPLE TO THE PRIVATE SECTOR  
EMPLOYERS. OPTION 3: IT CAN TRY TO IMPOSE, AS DID  
THE CONSERVATIVE GOVERNMENT OF EDWARD HEATH, VARIOUS

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CIAE-00 DODE-00 PM-04 H-01 INR-07 L-03 NSAE-00

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FORMS OF STATUTORY WAGE CONTROLS, WHICH COULD AT THE  
VERY LEAST MAKE ADHERENCE TO PHASE II AGREEMENTS (THE  
"TWELVE MONTHS" RULE) COMPULSORY.

3. IDEALLY, A SOLUTION WHICH INVOLVES A MIXTURE OF OPTIONS 1 AND 2 WOULD BE MOST SUITABLE TO THE GOVERNMENT, SINCE IT WOULD OFFER MORE THAN ONE WAY OF IN-LIMITED OFFICIAL USE

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FLUENCING THE LEVEL OF SETTLEMENTS. AT THIS JUNCTURE, IT WOULD SEEM THAT OPTION 1 IS EXTREMELY UNLIKELY, IN THE WAKE OF THE TGWU ACTION. ALTHOUGH NORMAN WILLIS, TUC ACTING GENERAL SECRETARY (LEN MURRAY IS ON VACATION) BELIEVES THAT THE SITUATION IS "VERY, VERY DIFFICULT," HE HOPES THERE IS AN OPPORTUNITY FOR THE UNIONS TO SALVAGE IT, AND THAT THE TUC MIGHT POSSIBLY HELP TO SERVE AS A BRAKING MECHANISM OR OVERSEER TO PREVENT EXCESSIVE WAGE SETTLEMENTS. (THE TUC, IT SHOULD BE NOTED, FAILED TO MITIGATE THE EXCESSIVE DEMANDS -- FREQUENTLY IN THE 30 PERCENT RANGE -- IN THE 1974-5 PERIOD.)

4. OPTION 2 IS MORE LIKELY. SECRETARY OF STATE FOR TRADE EDMUND DELL, SPEAKING TO SOME LONDON-BASED LABOR ATTACHES TODAY, SAID THAT THE GOVERNMENT IS DETERMINED TO PREVENT A WAGES EXPLOSION. IT WILL TRY TO GET THE UNIONS TO ACCEPT FURTHER RESTRAINT (OPTION 1), BUT IF THAT FAILS, IT WILL NOT HESITATE, HE SAID, TO USE ITS CONSIDERABLE POWERS TO LIMIT PUBLIC SECTOR WAGES AND TO CONTROL THE MONEY SUPPLY. HE BELIEVES, FURTHER, THAT DESPITE THE NEGATIVE ACTIONS AT UNION CONFERENCES TOWARD ANY PAY RESTRAINT, THE RANK AND FILE WILL CHOOSE RESTRAINT RATHER THAN FURTHER LARGE ADDITIONS TO THE UNEMPLOYMENT ROLLS. AS FOR OPTION 3, DELL SAID THE GOVERNMENT WILL NOT UNDER ANY CIRCUMSTANCES APPLY STATUTORY REGULATION OF WAGES. WE BELIEVE TOO THAT STATUTORY CONTROLS ARE ALMOST POLITICALLY IMPOSSIBLE FOR A LABOR GOVERNMENT AT THIS TIME. THEY WOULD STRONGLY ALIENATE THE UNIONS AND BITTERLY DIVIDE THE LABOR PARTY.

5. MANY OBSERVERS, INCLUDING A NUMBER OF THE LEADING NEWSPAPERS, HAVE CHARACTERIZED THE SETBACK ON THE ISLE LIMITED OFFICIAL USE

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OF MAN YESTERDAY AS ONE WHICH STRENGTHENS THE PROSPECT FOR AN EARLY ELECTION. JOHN PARDOE, THE LIBERAL PARTY'S ECONOMIC SPOKESMAN, INDICATED HIS BELIEF THAT THE LABOR-LIBERAL PACT IS IN JEOPARDY. HE SAID HE DID NOT BELIEVE THAT THE GOVERNMENT COULD USE ITS POWERS OVER THE MONEY SUPPLY OR CASH LIMITS IN THE PUBLIC

SECTOR TO RESOLVE ITS CRISIS (OPTION 2), ADDING, "IF THE TUC CANNOT DELIVER THEIR COMMITMENT TO PHASE II, THEN THE GOVERNMENT HAS TO SHOW IT CAN GOVERN BY IMPOSING A STATUTORY POLICY TO ENFORCE PHASE II OR GET OUT." THE GOVERNMENT MEETS WITH THE TUC ECONOMIC COMMITTEE NEXT TUESDAY TO SURVEY THE DAMAGE TO THE SOCIAL CONTRACT AND SEE WHAT, IF ANY, REPAIRS CAN BE ACHIEVED. THERE IS LITTLE DOUBT THAT THE PAY POLICY CRISIS HAS SHORTENED THE ODDS FOR AN EARLY ELECTION.

BREWSTER

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## Message Attributes

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